2016

CANFOR CORPORATION QUARTER TWO INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2016

To Our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $36.0 million, or $0.27 per share, for the second quarter of 2016, compared to shareholder net income of $26.0 million, or $0.20 per share, for the first quarter of 2016 and shareholder net income of $11.1 million, or $0.08 per share, for the second quarter of 2015. For the six months ended June 30, 2016, the Company's shareholder net income was $62.0 million, or $0.47 per share, compared to $40.4 million, or $0.30 per share, for the six months ended June 30, 2015.

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Sales	**$ 1,022.3**	$ 1,067.9	**$ 2,090.2**	$ 952.4	$ 1,882.4
Operating income before amortization[1]	**$ 111.6**	$ 125.7	**$ 237.3**	$ 69.8	$ 202.8
Operating income[1]	**$ 54.1**	$ 65.1	**$ 119.2**	$ 17.6	$ 101.3
Net income attributable to equity shareholders of the Company	**$ 36.0**	$ 26.0	**$ 62.0**	$ 11.1	$ 40.4
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.27**	$ 0.20	**$ 0.47**	$ 0.08	$ 0.30
Adjusted shareholder net income (loss)	**$ 26.5**	$ 20.9	**$ 47.4**	$ (2.0)	$ 44.5
Adjusted shareholder net income (loss) per share, basic and diluted	**$ 0.20**	$ 0.16	**$ 0.36**	$ (0.02)	$ 0.33

[1] Adjusted for a one-time gain of $15.5 million related to a legal settlement in the second quarter of 2016.

The Company's adjusted shareholder net income for the second quarter of 2016 was $26.5 million, or $0.20 per share, compared to an adjusted shareholder net income of $20.9 million, or $0.16 per share, for the first quarter of 2016, and an adjusted shareholder net loss of $2.0 million, or $0.02 per share for the second quarter of 2015. For the six months ended June 30, 2016, the Company's adjusted shareholder net income was $47.4 million, or $0.36 per share compared to $44.5 million, or $0.33 per share, for the six months ended June 30, 2015.

The Company reported adjusted operating income of $54.1 million for the second quarter of 2016, down $11.0 million from operating income of $65.1 million for the first quarter of 2016, with a solid improvement in lumber segment operating earnings more than offset by lower operating earnings in the pulp and paper segment, which reflected significant scheduled maintenance downtime in the quarter. Adjusted operating income excludes a one-time pre-tax gain of $15.5 million related to the settlement of a legal claim with respect to logistics services for its pellet business. Improved lumber segment results principally reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices and to a lesser extent, the contribution from the Company's Wynndel Box and Lumber Ltd. ("Wynndel") acquisition on April 15, 2016. These factors were offset in part by a 5 cent, or 7%, stronger Canadian dollar, and slightly lower planer production at the Company's Houston sawmill following a kiln fire in May. Pulp and paper segment operating earnings were lower than the previous quarter primarily due to scheduled maintenance outages at all three of the Company's NBSK pulp mills as well as lower Canadian-dollar NBSK pulp unit sales realizations.

North American lumber demand was solid across all segments of the market in the second quarter of 2016, with US housing starts in line with the previous quarter, averaging 1,160,000 units on a seasonally adjusted basis. Canadian housing starts were also broadly in line with the previous quarter, at an average of 198,000 units on a seasonally adjusted basis. Offshore lumber demand remained steady during the quarter.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was US$311 per Mfbm in the second quarter of 2016, up US$39 per Mfbm compared to the previous quarter, with similar price increases seen across most other dimensions and grades, with the exception of Western SPF 2x6 #2&Btr price which showed a more modest increase. Western SPF unit sales realizations benefitted from the higher US-dollar benchmark lumber prices as well as a higher-value sales mix. Partly offsetting these factors was the 7% stronger Canadian dollar during the quarter. SYP unit sales realizations also increased compared to the previous quarter reflecting both a US$30 per Mfbm increase in the SYP 2x4 #2 price and more pronounced price increases in most wide-dimension SYP lumber products which represent a significant proportion of the Company's product mix in the US South.

Total lumber shipments and production were in line with the first quarter of 2016 as the recent acquisition of Wynndel offset slightly reduced production in Western Canada as a result of the Houston sawmill's kiln fire. Unit manufacturing costs in the second quarter of 2016 were in line with the previous quarter.

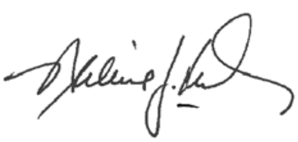
Positive pricing momentum in global softwood pulp markets during the second quarter of 2016 was due mostly to the impact of industry spring maintenance outages and solid demand, particularly from China. The average North American US-dollar NBSK pulp list price, as published by RISI, was up US$37 per tonne, or 4%, to US$980 per tonne, while the average price to China was up US$27 per tonne, or 5%. However, NBSK pulp unit sales realizations showed a modest decline from the previous quarter as price increases were outweighed by the stronger Canadian dollar and a higher proportion of shipments at the beginning of the quarter when NBSK prices were lower. Similarly, Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar list prices also trended positively in the second quarter of 2016 but the increases were offset by the stronger Canadian dollar. Lower energy revenue in the current quarter reflected both increased scheduled maintenance downtime and seasonally lower energy prices.

Pulp shipment and production volumes were down 10% and 13%, respectively, from the previous quarter principally reflecting the impact of the aforementioned scheduled maintenance outages and, to a lesser extent, isolated unplanned disruptions prior to the scheduled outages, which reduced market NBSK pulp production by approximately 40,000 tonnes compared to the 38,000 tonne impact forecast in the previous quarter's press release. NBSK unit manufacturing costs were substantially higher than the previous quarter principally as a result of the scheduled maintenance outages. BCTMP production volumes and unit manufacturing costs were broadly in line with the first quarter of 2016.

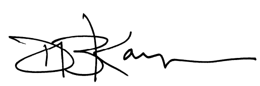
The Company's focus on cash management continued through the quarter. At the end of June 2016, the Company's consolidated net debt was $410.9 million representing a debt to capitalization of approximately 20%.

Discussions between the Canadian and US Governments regarding the Softwood Lumber Agreement continued through the second quarter of 2016. The one-year stand-still period, during which no trade actions may be imposed, expires in October 2016. While discussions have been progressing, it remains uncertain as to whether a new Softwood Lumber Agreement will be in place by the end of the stand-still period.

Looking ahead, the US housing market is forecast to continue its gradual recovery through the balance of 2016. North American lumber consumption is forecast to improve reflecting steady demand in the residential construction market and continued strength from the repair and remodelling sector. For the Company's key offshore lumber markets, demand is anticipated to remain stable through the third quarter. In the pulp and paper segment, with global softwood inventories at the low end of the balanced range and steady market demand, it is anticipated that prices will remain stable through the third quarter of 2016. Looking towards the end of 2016 and into 2017, there continues to be a risk of downward pressure on pricing due in part to previously announced new pulp capacity forecast to come online in the latter part of 2016. For the month of July 2016, the Company announced NBSK pulp list prices of US$1,000 per tonne in North America unchanged from June 2016.



Michael J. Korenberg
Chairman



Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Second Quarter 2016
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended June 30, 2016 relative to the quarters ended March 31, 2016 and June 30, 2015, and the financial position of the Company at June 30, 2016. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2016 and 2015, as well as the 2015 annual MD&A and the 2015 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2015 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net income (loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the second quarter of 2016.

Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the second quarter of 2016.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 26, 2016.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

SECOND QUARTER 2016 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Operating income (loss) by segment:					
Lumber	**$ 71.5**	$ 33.4	**$ 104.9**	$ 5.1	$ 53.4
Pulp and Paper	**$ 5.2**	$ 39.1	**$ 44.3**	$ 20.9	$ 63.9
Unallocated and Other	**$ (7.1)**	$ (7.4)	**$ (14.5)**	$ (8.4)	$ (16.0)
Total operating income	**$ 69.6**	$ 65.1	**$ 134.7**	$ 17.6	$ 101.3
Add: Amortization[1]	**$ 57.5**	$ 60.6	**$ 118.1**	$ 52.2	$ 101.5
Total operating income before amortization	**$ 127.1**	$ 125.7	**$ 252.8**	$ 69.8	$ 202.8
Add (deduct):					
Working capital movements	**$ 128.8**	$ (58.0)	**$ 70.8**	$ 86.3	$ (14.9)
Defined benefit plan contributions, net	**$ (5.2)**	$ (5.2)	**$ (10.4)**	$ (5.5)	$ (2.5)
Income taxes paid, net	**$ (3.0)**	$ (13.6)	**$ (16.6)**	$ (12.1)	$ (34.1)
Gain on legal settlement, net[2]	**$ (15.5)**	$ -	**$ (15.5)**	$ -	$ -
Other operating cash flows, net[3]	**$ (8.9)**	$ 2.0	**$ (6.9)**	$ (12.0)	$ 8.6
Cash from operating activities	**$ 223.3**	$ 50.9	**$ 274.2**	$ 126.5	$ 159.9
Add (deduct):					
Finance expenses paid	**$ (6.9)**	$ (4.1)	**$ (11.0)**	$ (3.0)	$ (5.6)
Distributions paid to non-controlling interests	**$ (7.3)**	$ (4.2)	**$ (11.5)**	$ (6.7)	$ (9.7)
Capital additions, net	**$ (66.2)**	$ (47.1)	**$ (113.3)**	$ (49.4)	$ (95.2)
Acquisitions	**$ (19.7)**	$ -	**$ (19.7)**	$ (66.4)	$ (139.5)
Investment in Ignite Energy Resources	**$ (3.5)**	$ -	**$ (3.5)**	$ -	$ -
Share purchases	**$ -**	$ -	**$ -**	$ (13.2)	$ (39.2)
Change in restricted cash[4]	**$ -**	$ -	**$ -**	$ -	$ 50.2
Foreign exchange gain (loss) on cash and cash equivalents	**$ (0.3)**	$ (3.9)	**$ (4.2)**	$ (0.5)	$ 7.9
Other, net	**$ (18.6)**	$ (3.4)	**$ (22.0)**	$ (16.6)	$ (17.2)
Change in cash / operating loans	**$ 100.8**	$ (11.8)	**$ 89.0**	$ (29.3)	$ (88.4)
ROIC – Consolidated period-to-date[5]	**2.2%**	1.3%	**3.6%**	0.1%	2.9%
Average exchange rate (US$ per C$1.00)[6]	**$ 0.776**	$ 0.728	**$ 0.752**	$ 0.813	$ 0.810

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Gain relates to a $16.3 million settlement of a legal claim with respect to logistics services, net of a $0.8 million impairment of related machinery and equipment.
[3] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[4] Change in restricted cash relates to amounts transferred into an escrow bank account for the first phase of the Beadles & Balfour acquisition which closed on January 2, 2015.
[5] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.
[6] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Shareholder net income, as reported	**$ 36.0**	$ 26.0	**$ 62.0**	$ 11.1	$ 40.4
(Gain) loss on derivative financial instruments	**$ (2.3)**	$ 1.8	**$ (0.5)**	$ (7.7)	$ 9.5
Foreign exchange gain on long-term debt	**$ (0.3)**	$ (6.9)	**$ (7.2)**	$ -	$ -
Gain on legal settlement, net	**$ (6.9)**	$ -	**$ (6.9)**	$ -	$ -
Mark-to-market gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.	**$ -**	$ -	**$ -**	$ (6.1)	$ (6.1)
Mark-to-market loss on Taylor Pulp contingent consideration, net	**$ -**	$ -	**$ -**	$ 0.7	$ 0.7
Net impact of above items	**$ (9.5)**	$ (5.1)	**$ (14.6)**	$ (13.1)	$ 4.1
Adjusted shareholder net income (loss)	**$ 26.5**	$ 20.9	**$ 47.4**	$ (2.0)	$ 44.5
Shareholder net income per share (EPS), as reported	**$ 0.27**	$ 0.20	**$ 0.47**	$ 0.08	$ 0.30
Net impact of above items per share	**$ (0.07)**	$ (0.04)	**$ (0.11)**	$ (0.10)	$ 0.03
Adjusted shareholder net income (loss) per share	**$ 0.20**	$ 0.16	**$ 0.36**	$ (0.02)	$ 0.33

The Company's adjusted shareholder net income for the second quarter of 2016 was $26.5 million, or $0.20 per share, compared to an adjusted shareholder net income of $20.9 million, or $0.16 per share, for the first quarter of 2016, and an adjusted shareholder net loss of $2.0 million, or $0.02 per share for the second quarter of 2015. For the six months ended June 30, 2016, the Company's adjusted shareholder net income was $47.4 million, or $0.36 per share compared to $44.5 million, or $0.33 per share, for the six months ended June 30, 2015.

The Company reported adjusted operating income of $54.1 million for the second quarter of 2016, down $11.0 million from operating income of $65.1 million for the first quarter of 2016, with a solid improvement in lumber segment operating earnings more than offset by lower operating earnings in the pulp and paper segment, which reflected significant scheduled maintenance downtime in the quarter. Adjusted operating income excludes a one-time pre-tax gain of $15.5 million related to the settlement of a legal claim with respect to logistics services for its pellet business. Improved lumber segment results principally reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices and to a lesser extent, the contribution from the Company's Wynndel Box and Lumber Ltd. ("Wynndel") acquisition on April 15, 2016. These factors were offset in part by a 5 cent, or 7%, stronger Canadian dollar, and slightly lower planer production at the Company's Houston sawmill following a kiln fire in May. Pulp and paper segment operating earnings were lower than the previous quarter primarily due to scheduled maintenance outages at all three of the Company's NBSK pulp mills as well as lower Canadian-dollar NBSK pulp unit sales realizations.

North American lumber demand was solid across all segments of the market in the second quarter of 2016, with US housing starts in line with the previous quarter, averaging 1,160,000 units on a seasonally adjusted basis. Canadian housing starts were also broadly in line with the previous quarter, at an average of 198,000 units on a seasonally adjusted basis. Offshore lumber demand remained steady during the quarter.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was US$311 per Mfbm in the second quarter of 2016, up US$39 per Mfbm compared to the previous quarter, with similar price increases seen across most other dimensions and grades, with the exception of Western SPF 2x6 #2&Btr price which showed more modest increases. Western SPF unit sales realizations benefitted from the higher US-dollar benchmark lumber prices as well as a higher-value sales mix. Partly offsetting these factors was the 7% stronger Canadian dollar during the quarter. SYP unit sales realizations also increased compared to the previous quarter reflecting a US$30 per Mfbm increase in the SYP 2x4 #2 price, and more pronounced price increases in most wide-dimension SYP lumber products, which represent a significant proportion of the Company's product mix in the US South.

Total lumber shipments and production were in line with the first quarter of 2016 as the recent acquisition of Wynndel offset slightly reduced production in Western Canada as a result of the Houston sawmill's kiln fire. Unit manufacturing costs in the second quarter of 2016 were also in line with the previous quarter.

Positive pricing momentum in global softwood pulp markets during the second quarter of 2016 was due mostly to the impact of industry spring maintenance outages and solid demand, particularly from China. The average North

American US-dollar NBSK pulp list price, as published by RISI, was up US$37 per tonne, or 4%, to US$980 per tonne, while the average price to China was up US$27 per tonne, or 5%. However, NBSK pulp unit sales realizations showed a modest decline from the previous quarter as price increases were outweighed by the stronger Canadian dollar and a higher proportion of shipments at the beginning of the quarter when NBSK prices were lower. Similarly, Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar list prices also trended positively in the second quarter of 2016 but the increases were offset by the stronger Canadian dollar. Lower energy revenue in the current quarter reflected both increased scheduled maintenance downtime and seasonally lower energy prices.

Pulp shipment and production volumes were down 10% and 13%, respectively, from the previous quarter principally reflecting the impact of the aforementioned scheduled maintenance outages and, to a lesser extent, isolated unplanned disruptions before the scheduled outages, which reduced market NBSK pulp production by approximately 40,000 tonnes compared to the 38,000 tonne impact forecast in the previous quarter's press release. NBSK unit manufacturing costs were substantially higher than the previous quarter principally as a result of the scheduled maintenance outages. BCTMP production volumes and unit manufacturing costs were broadly in line with the first quarter of 2016.

Compared to the second quarter of 2015, adjusted operating income was up $36.5 million reflecting a $50.9 million increase in lumber segment earnings and a $15.7 million decrease in earnings for the pulp and paper segment. The increase in lumber segment earnings was mostly attributable to higher US-dollar benchmark lumber prices, the benefit of a 4 cent, or 5%, weaker Canadian dollar and the absence of export taxes on Canadian shipments to the U.S. in the current quarter. In addition, lumber segment earnings benefitted from the recent acquisitions of Anthony Forest Products Company ("Anthony") and Wynndel, on October 30, 2015 and April 15, 2016, respectively. After adjusting for items affecting comparability between quarters, lumber production was in line with the second quarter of 2015 as improved lumber productivity was offset in part by the impact of the Houston kiln fire, while lumber shipments were slightly lower reflecting record-high offshore shipments to China in the second quarter of 2015 in part due to a US West Coast port strike in the first quarter of 2015. Pulp and paper segment results reflected lower NBSK pulp unit sales realizations and the quarter-over-quarter impact of the aforementioned scheduled maintenance outages.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Sales	$ 765.3	$ 772.6	$ 1,537.9	$ 676.0	$ 1,323.0
Operating income before amortization	$ 110.9	$ 74.2	$ 185.1	$ 40.6	$ 121.1
Operating income	$ 71.5	$ 33.4	$ 104.9	$ 5.1	$ 53.4
Average SPF 2x4 #2&Btr lumber price in US$[7]	$ 311	$ 272	$ 292	$ 270	$ 289
Average SPF price in Cdn$[7]	$ 401	$ 374	$ 388	$ 332	$ 357
Average SYP 2x4 #2 lumber price in US$[8]	$ 437	$ 407	$ 422	$ 383	$ 398
U.S. housing starts (thousand units SAAR)[9]	1,160	1,151	1,156	1,144	1,061
Production – SPF lumber (MMfbm)[10]	955.1	966.5	1,921.6	961.0	1,927.0
Production – SYP lumber (MMfbm)[10]	334.5	336.0	670.5	304.9	539.4
Shipments – SPF lumber (MMfbm)[11]	995.6	1,006.3	2,001.9	1,046.1	1,976.7
Shipments – SYP lumber (MMfbm)[11]	348.3	348.9	697.2	315.6	552.0
Shipments – wholesale lumber (MMfbm)	6.7	6.5	13.2	4.8	10.2

[7] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[8] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[9] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").
[10] Excluding production of trim blocks.
[11] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks. Shipments include volume from the Company's Glulam facilities acquired on October 30, 2015.

Overview

Operating income for the lumber segment was $71.5 million for the second quarter of 2016, an increase of $38.1 million compared to operating income of $33.4 million in the previous quarter, and up $66.4 million compared to operating income of $5.1 million in the same quarter of 2015. Excluding the aforementioned one-time $15.5 million gain related to the aforementioned legal settlement in the current quarter, the lumber segment's adjusted operating income was up $22.6 million from the first quarter of 2016.

Compared to the first quarter of 2016, the increase in adjusted operating income for the lumber segment primarily reflected improved benchmark lumber prices, and to a lesser extent the contribution from Wynndel. Western SPF lumber unit sales realizations showed a modest improvement as higher US-dollar Western SPF benchmark lumber prices and the inclusion of Wynndel's premium product mix offset a 5 cent, or 7%, stronger Canadian dollar in the current quarter. SYP lumber unit sales realizations also increased compared to the prior quarter reflecting a moderate increase in the SYP 2x4 #2 price, which was up US$30 per Mfbm, and more pronounced price increases in most wide-dimension SYP lumber products, which represent a significant proportion of the Company's product mix in the US South. Total lumber shipment and production volumes were in line with the previous quarter.

Compared to the second quarter of 2015, the increase in adjusted operating income in the current quarter was mostly attributable to higher lumber unit sales realizations reflecting higher US-dollar benchmark lumber prices, the weaker Canadian dollar and no export taxes. In addition, lumber segment earnings benefitted from the Company's recent acquisitions. Total lumber production showed a modest increase, for the most part reflecting the Company's recent acquisitions, offset in part by the closure of its Canal Flats sawmill in November 2015. Lumber shipments were slightly lower, for the most part reflecting record offshore shipments to China in the second quarter of 2015.

The Company's Fort St. John and Chetwynd pellet plants continued through their respective capital ramp-ups during the second quarter of 2016, and operated above target production levels.

Markets

During the second quarter of 2016, Western SPF and SYP lumber prices saw moderate increases reflecting increased consumption and stronger demand in North America across all sectors. Wide-width SYP products in particular benefitted from seasonally strong demand early in the quarter. Total US housing starts averaged 1,160,000 units SAAR, in line with both the previous quarter and the same period in 2015.

In Canada, lumber demand remained relatively balanced as Canadian housing starts were broadly in line with the previous quarter at an average of 198,000 units on a seasonally adjusted basis. Compared to the second quarter of 2015, Canadian housing starts were up 3%.

Offshore lumber demand remained steady during the second quarter of 2016.

Sales

Sales for the lumber segment for the second quarter of 2016 were $765.3 million, compared to $772.6 million in the previous quarter and $676.0 million for the second quarter of 2015. Compared to the first quarter of 2016, the impact of the 7% stronger Canadian dollar and seasonally-lower log sales during spring break-up in Western Canada offset higher average Western SPF and SYP US-dollar benchmark lumber prices. Relative to the second quarter of 2015, the increase of $89.3 million, or 13%, in sales revenue was primarily due to higher Western SPF and SYP lumber sales realizations and the Company's recent acquisitions.

Total lumber shipments in the second quarter of 2016, at 1.35 billion board feet, were in line with the previous quarter, and slightly lower compared to the second quarter of 2015, primarily due to record high quarterly shipments to China in the second quarter of 2015 following the logistics challenges in the prior quarter.

Lumber unit sales realizations showed a moderate improvement compared to the previous quarter reflecting higher average Western SPF and SYP lumber prices, offset in part by a 5 cent, or 7% stronger Canadian dollar. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$39 per Mfbm, or 14%, compared to the first quarter of 2016, with similar price increases seen across most other dimensions and grades, with the exception of Western SPF 2x6 #2&Btr price which showed a more modest increase. SYP lumber unit sales realizations in the second quarter of 2016 showed a moderate increase compared to the first quarter of 2016. The average Random Lengths SYP East 2x4 #2 price moved up US$30 per Mfbm to US$437 per Mfbm with more pronounced price increases seen in most wide dimension SYP products.

Compared to the second quarter of 2015, lumber unit sales realizations improved reflecting higher US-dollar Western SPF and SYP benchmark lumber prices, the absence of a 7% average export tax and the benefit of the weaker Canadian dollar. In addition, lumber sales realizations benefitted from the premium products produced at Anthony and Wynndel. Compared to the second quarter of 2015, the average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$41 per Mfbm, or 15%, to US$311 per Mfbm, while the SYP East 2x4 #2 price was up US$54 per Mfbm, or 14%, to US$437 per Mfbm.

Total residual fibre revenue in the current quarter was modestly lower compared to the prior quarter due to market-driven decreases in sawmill residual chip prices tied to lower NBSK pulp unit sales realizations. Compared to the second quarter of 2015, residual fibre revenue was up due to additional chip sales volumes (from recent acquisitions), and higher lumber productivity. Pellet sales were also higher compared to both comparable periods following the ramp-up of the Fort St. John and Chetwynd pellet plants in the first quarter of 2016.

Operations

Lumber production, at 1.29 billion board feet, was in line with the previous quarter as the contribution from Wynndel offset slightly reduced planer production as a result of the Houston kiln fire. Compared to the second quarter of 2015, total lumber production increased primarily reflecting incremental production from the Company's recent acquisitions and improved productivity, offset in part by the Company's closure of its Canal Flats sawmill in November 2015 and reduced production at the Houston sawmill as a result of the kiln fire in the current quarter.

Unit manufacturing costs in the second quarter of 2016 were in line with the previous quarter. Compared to the second quarter of 2015, unit manufacturing costs were slightly higher, primarily reflecting costs associated with the high-value products manufactured at the recent acquisitions offset in part by improved productivity following several capital upgrades and shift configuration changes.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[12]

(millions of Canadian dollars, unless otherwise noted)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Sales	**$ 257.0**	$ 295.3	**$ 552.3**	$ 276.4	$ 559.4
Operating income before amortization[13]	**$ 22.1**	$ 57.8	**$ 79.9**	$ 36.5	$ 95.4
Operating income	**$ 5.2**	$ 39.1	**$ 44.3**	$ 20.9	$ 63.9
Average pulp price delivered to U.S. – US$[14]	**$ 980**	$ 943	**$ 962**	$ 980	$ 988
Average price in Cdn$[14]	**$ 1,263**	$ 1,295	**$ 1,279**	$ 1,205	$ 1,220
Production – pulp (000 mt)	**279.6**	321.8	**601.4**	294.6	602.8
Production – paper (000 mt)	**32.1**	35.3	**67.4**	31.0	66.4
Shipments – pulp (000 mt)	**287.2**	319.1	**606.3**	291.9	579.3
Shipments – paper (000 mt)	**38.5**	34.9	**73.4**	33.8	65.9

[12] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK and BCTMP.
[13] Amortization includes amortization of certain capitalized major maintenance costs.
[14] Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $5.2 million for the second quarter down $33.9 million from the first quarter of 2016 and down $15.7 million from the same quarter in 2015.

The lower pulp and paper segment operating income reflected scheduled maintenance outages taken at all three NBSK pulp mills and, to a lesser extent, isolated unplanned disruptions which reduced production by approximately 40,000 tonnes compared to the previous quarter, and after taking account of scheduled outages in the second quarter of 2015, reduced production by approximately 26,000 tonnes compared to the same quarter in 2015. The pulp and paper segment's lower operating earnings also reflect a decline in NBSK pulp unit sales realizations and lower energy revenues associated with fewer operating days and seasonally lower energy prices. Offsetting these factors somewhat were the benefits of lower unit fibre costs and certain Scientific Research and Experimental Development ("SR&ED") tax credits recognized in the second quarter of 2016.

Markets

Positive pricing momentum in global softwood pulp markets during the second quarter of 2016 was due in part to the impact of industry spring maintenance outages and solid demand, particularly from China. Pulp producer inventories as of May 2016 were at 27 days of supply, a decrease of 3 days from March 2016[15]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp were up 3.6% for the first five months of 2016 as compared to the same period in 2015, driven primarily by increased shipments to China, and to a lesser extent North America[16].

Sales

Total pulp shipments in the second quarter of 2016 were 287,200 tonnes, down 31,900 tonnes, or 10%, from the first quarter of 2016 and down 4,700 tonnes, or 2%, from the second quarter of 2015. Lower pulp shipments in the current quarter for the most part reflected the lower NBSK pulp production. BCTMP shipments made up approximately 21% of the current quarter's total pulp shipments, up approximately 3% from the previous quarter.

The average North American US-dollar NBSK pulp list price, as published by RISI, was up US$37 per tonne, or 4%, from the previous quarter while the average price to China was up US$27 per tonne, or 5%. NBSK pulp unit sales realization showed a modest decline compared to the first quarter of 2016 as the US-dollar NBSK price increases and increased sales to North America were outweighed by a 5 cent, or 7%, stronger Canadian dollar and a higher proportion of shipments at the beginning of the second quarter when NBSK prices were lower. BCTMP markets showed signed of improvement in the second quarter of 2016 with US-dollar prices trending upwards through the quarter but these increases were offset by the stronger Canadian dollar.

[15] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").
[16] As reported by PPPC statistics.

Compared to the second quarter of 2015, the average North American US-dollar pulp list price was unchanged while the average price to China was down US$58 per tonne. The Company's average NBSK unit sales realizations were moderately lower than the second quarter of 2015 as lower US-dollar prices to China and proportionately lower NBSK pulp shipments to the higher-value North American market outweighed the benefit of the weaker Canadian dollar and lower freight costs. BCTMP unit sales realizations were well down from the second quarter of 2015 reflecting lower US-dollar BCTMP prices which more than offset the weaker Canadian dollar.

The contribution from the Company's energy business was down compared to the previous quarter of 2016 reflecting lower power generation due to the scheduled maintenance outages in the current quarter and seasonally lower energy prices. Energy revenues are anticipated to return to more normalized levels in the third quarter of 2016.

Paper unit sales realizations in the second quarter of 2016 were significantly lower than the previous quarter as a result of the strengthening of the Canadian dollar and, to a lesser extent, proportionately higher shipments to China in the current quarter. Compared to the same quarter in 2015, paper unit sales realizations were moderately lower as lower US-dollar kraft paper prices and proportionately lower shipments to the North American market were partly offset by a weaker Canadian dollar.

Operations

Pulp production in the second quarter of 2016 at 279,600 tonnes was down 42,200 tonnes, or 13%, from the first quarter of 2016 and down 15,000 tonnes, or 5%, from the second quarter of 2015. During the second quarter of 2016, the Company completed scheduled maintenance outages at all three NBSK pulp mills which combined with isolated unplanned disruptions reduced pulp production by approximately 40,000 tonnes in the quarter. Major scheduled maintenance outages were completed at the Northwood and Intercontinental NBSK pulp mills while a minor scheduled maintenance outage was completed at the Prince George NBSK pulp mill. BCTMP production was in line with the previous quarter and made up approximately 20% of the Company's total pulp production during the second quarter of 2016. In the second quarter of the prior year, the Company completed scheduled maintenance outages at the Intercontinental and Prince George NBSK pulp mills as well as the BCTMP Taylor pulp mill which reduced total market pulp production by approximately 14,000 tonnes.

Pulp unit manufacturing costs were materially higher in the current quarter principally reflecting costs associated with the aforementioned maintenance outages. Fibre costs were down slightly compared to the previous quarter largely reflecting lower delivered costs for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) and, to a lesser extent, a lower proportion of higher-cost whole log chips purchased. Offsetting these factors was a seasonal improvement in chip quality which increased the price for sawmill residual chips.

Pulp unit manufacturing costs were broadly in line with the second quarter of 2015 as lower fibre and energy costs offset the incremental costs associated with the maintenance outages in the current quarter. Fibre costs were down compared to the same quarter in the prior year reflecting lower market prices for delivered sawmill residual chips.

Paper production for the second quarter of 2016 at 32,100 tonnes was down 3,200 tonnes from the first quarter of 2016 and was up 1,100 tonnes from the same quarter in 2015. The decrease in paper production volume from the previous quarter was largely due to a five-day scheduled maintenance outage during the current quarter. No maintenance outages occurred in the first quarter of 2016 while a nine-day scheduled maintenance outage in the second quarter of 2015 reduced paper production by approximately 3,300 tonnes in that period.

Paper unit manufacturing costs were relatively flat compared to the first quarter of 2016 as lower prices for slush pulp were offset by costs associated with the scheduled maintenance outage in the current quarter. Compared to the second quarter of 2015, paper unit manufacturing costs were slightly lower principally reflecting lower slush pulp costs.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Operating loss of Panels operations[17]	**$ (0.3)**	$ (0.7)	**$ (1.0)**	$ (0.6)	$ (1.3)
Corporate costs	**$ (6.8)**	$ (6.7)	**$ (13.5)**	$ (7.8)	$ (14.7)
Finance expense, net	**$ (8.4)**	$ (8.2)	**$ (16.6)**	$ (5.6)	$ (10.9)
Foreign exchange gain on long-term debt	**$ 0.4**	$ 7.9	**$ 8.3**	-	-
Gain (loss) on derivative financial instruments	**$ 3.1**	$ (2.4)	**$ 0.7**	$ 12.7	$ (15.3)
Other income (expense), net	**$ 0.4**	$ (10.1)	**$ (9.7)**	$ 3.3	$ 14.1

[17] The Panels operations include the Company's PolarBoard oriented strand board ("OSB") plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

Corporate costs were $6.8 million for the second quarter of 2016, in line with the previous quarter, and $1.0 million lower than the second quarter of 2015 mostly as a result of lower legal and share based compensation expenses.

Net finance expense at $8.4 million for the second quarter of 2016 was broadly in line with the previous quarter and up $2.8 million from the second quarter of 2015. The increase reflected higher interest expense associated the US-dollar term debt financings completed at the beginning of the fourth quarter of 2015. In the second quarter of 2016, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities due to the stronger Canadian dollar at the end of the quarter (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices, pulp prices and interest rates. In the second quarter of 2016, the Company recorded a net gain of $3.1 million related to its derivatives instruments, reflecting both realized and unrealized gains on lumber future contracts and crude oil collars settled during the quarter.

Other income, net of $0.4 million in the second quarter of 2016 compared to a net expense of $10.1 million in the first quarter of 2016 which principally reflected foreign exchange movements on US dollar denominated cash, receivables and payables.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Foreign exchange translation differences for foreign operations	**$ (0.8)**	$ (24.5)	**$ (25.3)**	$ (6.2)	$ 28.1
Defined benefit actuarial gains (losses), net of tax	**$ (33.6)**	$ (17.6)	**$ (51.2)**	$ 16.4	$ 13.2
Other comprehensive income (loss), net of tax	**$ (34.4)**	$ (42.1)	**$ (76.5)**	$ 10.2	$ 41.3

In the second quarter of 2016, the Company recorded an after-tax loss of $33.6 million in relation to changes in the valuation of the Company's employee future benefit plans. Compared to the first quarter of 2016, the loss principally reflected a 0.5% decrease in the discount rate used to value the employee future benefit plans offset by the return generated on plan assets. This compared to an after-tax loss of $17.6 million in the previous quarter and an after-tax gain of $16.4 million in the second quarter of 2015.

In addition, the Company recorded a loss of $0.8 million in the second quarter of 2016 related to foreign exchange differences for foreign operations, resulting from the strengthening of the Canadian dollar relative to the US dollar. This compared to a loss of $24.5 million in the previous quarter and a loss of $6.2 million in the second quarter of 2015 due to a strengthening of the Canadian dollar relative to the US counterpart.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Increase (decrease) in cash[18]	**$ 25.1**	$ 39.1	**$ 64.2**	$ (69.8)	$ (22.3)
Operating activities	**$ 223.3**	$ 50.9	**$ 274.2**	$ 126.5	$ 159.9
Financing activities	**$ (109.6)**	$ 33.7	**$ (75.9)**	$ (71.2)	$ 10.5
Investing activities	**$ (88.6)**	$ (45.5)	**$ (134.1)**	$ (125.1)	$ (192.7)
Ratio of current assets to current liabilities			**1.5:1**		1.8:1
Net debt to capitalization			**20.3%**		12.2%

[18] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.

Changes in Financial Position

Cash generated from operating activities was $223.3 million in the second quarter of 2016, compared to cash generated of $50.9 million in the previous quarter and cash generated of $126.5 million in the same quarter of 2015. The significant increase in operating cash flows from the previous quarter primarily reflected a seasonal drawdown of log inventories during the spring break-up period in Western Canada and increased earnings in the lumber segment partly offset by lower cash earnings in the pulp and paper segment. Compared to the second quarter of 2015, the higher operating cash flows was primarily attributable to lower non-cash working capital balances, principally due to lower lumber inventory levels and higher cash earnings in the current quarter.

Cash used in financing activities was $109.6 million in the current quarter, compared to cash generated of $33.7 million in the previous quarter and cash used of $71.2 million in the same quarter of 2015. During the current quarter, the Company made cash distributions of $7.3 million to non-controlling shareholders, up $3.1 million from the previous quarter and broadly in line with the same quarter of 2015. CPPI purchased 1,839,831 common shares under its Normal Course Issuer Bid for $19.5 million, of which $19.4 million was paid during the quarter, while Canfor did not purchase any common shares under its Normal Course Issuer Bid in the second quarter of 2016 (see "Liquidity and Financial Requirements" for more details). The Company had $129.0 million outstanding on its operating loan facility at the end of the second quarter of 2016, a decrease of $76.0 million from the prior quarter and a decrease of $13.0 million from the end of the second quarter of 2015.

Cash used for investing activities was $88.6 million in the current quarter, compared to $45.5 million in the previous quarter and $125.1 million in the same quarter of 2015. Cash used for capital additions was $66.2 million, up $19.1 million from the previous quarter and up $16.8 million from the second quarter of 2015. Current quarter capital expenditures included costs related to a major upgrade of the Company's Polar sawmill, a kiln replacement project at the Houston sawmill as well as various smaller capital projects mostly at the Company's US South lumber operations. In the pulp and paper segment, capital expenditures primarily related to capital expenditures associated with several capital projects including energy, maintenance of business and improvement projects. Investing activities in the current quarter also included cash consideration paid of $19.7 million related to the asset purchase of Wynndel (See further discussion in the "Commitments and Subsequent Events" section), and CPPI's $3.5 million investment in Ignite Energy Resources associated with formation of the Licella Joint Venture (See further discussion in the "Licella Pulp Joint Venture" section).

Liquidity and Financial Requirements

At June 30, 2016, the Company on a consolidated basis had cash of $157.5 million, $129.0 million drawn on its operating loans, and an additional $48.4 million reserved for several standby letters of credit. During the quarter, the company repaid $76.0 million of its operating loan, and at period end had total available undrawn operating loans of $322.3 million.

Excluding CPPI, the Company's bank operating loans at June 30, 2016 totaled $350.0 million, of which $129.0 million was drawn, and an additional $39.3 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. In 2015, Canfor's principal operating loans, excluding CPPI, were extended to September 28, 2020 and certain financial covenants were removed. Interest is payable on the operating loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

In 2015, the Company entered into a US$100.0 million term debt financing, repayable in three equal tranches on October 2, 2023, October 2, 2024 and the balance due on October 2, 2025, and entered into a new eight-year floating interest rate term loan for an additional US$100.0 million.

At June 30, 2016, CPPI had an undrawn $110.0 million bank loan facility with a maturity date of January 31, 2019. CPPI's $20.0 million facility to cover letters of credit expired on June 30, 2016 and was not extended. On June 30, 2016, $6.1 million of letters of credit covered under the expired facility were transferred to the general operating loan facility and combined with $3.0 million already outstanding under the general operating loan facility.

The Company and CPPI remained in compliance with the covenants relating to their operating loans and long-term debt during the quarter, and expect to remain so for the foreseeable future.

The Company's consolidated net debt to total capitalization at the end the second quarter of 2016 was 20.3%. For Canfor, excluding CPPI, net debt to capitalization at the end of the first quarter of 2016 was 21.7%.

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the second quarter of 2016, Canfor did not purchase any common shares. As at July 26, 2016, there were 132,804,573 common shares of the Company outstanding. Under a separate normal course issuer bid, CPPI purchased 1,839,831 common shares (an average of $10.60 per common share) from non-controlling shareholders during the second quarter of 2016. Canfor and CPPI may purchase more shares through the balance of 2016 subject to the terms of their normal course issuer bids.

As a result of CPPI's share repurchases in the current quarter, Canfor's ownership interest in CPPI increased to 53.6% at quarter end, up 1.2% from the end of the prior quarter.

Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills with the objective of economically converting biomass into biofuels and biochemicals.

Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. In conjunction with the joint venture agreement, CPPI has entered a $7.0 million convertible credit facility with IER, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

During the second quarter of 2016, CPPI advanced $3.5 million to IER and exercised its option to convert the amount advanced into an equity investment in IER. The remaining balance of $3.5 million is anticipated to be advanced to IER during the fourth quarter of 2016.

Commitments and Subsequent Events

On January 2, 2015, the first phase of the acquisition of Beadles & Balfour closed representing an initial 55% ownership interest. Canfor obtained control for accounting purposes with the consolidation of Beadles & Balfour starting on January 2, 2015. The final phase whereby Canfor will wholly own Beadles & Balfour is scheduled to close at the beginning of 2017. The aggregate purchase price for Beadles & Balfour is US$68.0 million plus working capital.

On January 30, 2015, the Company completed the third phase of the acquisition of Scotch Gulf increasing its ownership to 50%. On completion of this phase of the acquisition, Canfor obtained control for accounting purposes with the consolidation of Scotch Gulf starting on January 30, 2015. The final phase, whereby the Company will own 100% of Scotch Gulf, is scheduled to close on July 29, 2016. The aggregate purchase price for Scotch Gulf is US$80.5 million plus working capital.

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. for $31.6 million, excluding working capital. At the acquisition date, the Company paid $19.7 million, and a working capital true-up payment of $2.6 million was paid in early July. The remaining consideration of $18.0 million will be paid in two installments. The first installment of $14.4 million is scheduled to be paid on April 15, 2017 and the second installment of $3.6 million is scheduled to be paid on October 15, 2017.

OUTLOOK

Lumber

Looking ahead, the US housing market is forecast to continue its gradual recovery through 2016. North American lumber consumption is forecast to improve reflecting steady demand in the residential construction market and continued strength from the repair and remodelling sector. For the Company's key offshore lumber markets, demand is anticipated to remain stable through the third quarter of 2016.

Pulp and Paper

Global softwood markets are balanced heading into the seasonally slower summer months. With inventories at the low end of the balanced range and market demand stable, it is anticipated that current pricing will be supported through the third quarter of 2016. Looking towards the end of 2016 and into 2017, there continues to be a risk of downward pressure on pricing due in part to previously announced new pulp capacity forecast to come online in the latter part of 2016. For the month of July 2016, the Company announced NBSK pulp list prices of US$1,000 per tonne in North America unchanged from June 2016.

The Prince George NBSK pulp mill has a maintenance outage scheduled for the third quarter of 2016 with projected reduced production of approximately 4,000 tonnes and the Taylor BCTMP mill will complete a maintenance outage in the fourth quarter of 2016 with projected reduced production of approximately 8,000 tonnes. The kraft paper machine has a maintenance outage scheduled for the third quarter of 2016 with projected reduced production of approximately 3,500 tonnes.

OUTSTANDING SHARES

At July 26, 2016, there were 132,804,573 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement and deferred reforestation obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

In January 2016, the IASB issued IFRS 16, *Leases*, which will supersede IAS 17, *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2016, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2015 annual statutory reports which are available on www.canfor.com or www.sedar.com.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US dollar denominated working capital balances, US dollar denominated debt and revaluation of outstanding derivative financial instruments.

Softwood Lumber Agreement

On October 12, 2015, the Softwood Lumber Agreement expired. The SLA provides a standstill period of one year following the expiry of the SLA during which no trade actions may be imposed for the importation of softwood lumber from Canada to the US. It is uncertain whether a new agreement between the Governments of Canada and the US will be reached. In the event no agreement is reached, there is a material risk of US trade action being initiated against Canadian lumber producers which could result in the imposition of duties on lumber shipments to the US.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,022.3**	$ 1,067.9	$ 1,053.0	$ 989.9	$ 952.4	$ 930.0	$ 860.4	$ 838.0
Operating income	**$ 69.6**	$ 65.1	$ 31.8	$ 8.5	$ 17.6	$ 83.7	$ 62.0	$ 85.6
Net income	**$ 51.0**	$ 42.3	$ 19.6	$ 1.4	$ 23.9	$ 47.0	$ 40.5	$ 58.2
Shareholder net income (loss)	**$ 36.0**	$ 26.0	$ 1.6	$ (17.3)	$ 11.1	$ 29.3	$ 29.9	$ 45.5
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.27**	$ 0.20	$ 0.01	$ (0.13)	$ 0.08	$ 0.22	$ 0.22	$ 0.34
Book value[19]	**$ 9.92**	$ 9.91	$ 10.02	$ 10.00	$ 9.86	$ 9.76	$ 10.25	$ 10.24
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	1,050	-	410	1,112	-	-
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ 20.0	$ -	$ 9.9	$ 29.3	$ -	$ -
Statistics								
Lumber shipments (MMfbm)	**1,351**	1,362	1,361	1,343	1,367	1,172	1,092	1,124
Pulp shipments (000 mt)	**287**	319	356	307	292	287	314	291
Average exchange rate – US$/Cdn$	**$ 0.776**	$ 0.728	$ 0.749	$ 0.764	$ 0.813	$ 0.806	$ 0.881	$ 0.918
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 311**	$ 272	$ 263	$ 269	$ 270	$ 308	$ 340	$ 357
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 437**	$ 407	$ 400	$ 331	$ 383	$ 413	$ 427	$ 438
Average NBSK pulp list price delivered to U.S. (US$)	**$ 980**	$ 943	$ 945	$ 967	$ 980	$ 995	$ 1,025	$ 1,030

[19] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	**Q2 2016**	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Shareholder net income (loss), as reported	**$ 36.0**	$ 26.0	$ 1.6	$ (17.3)	$ 11.1	$ 29.3	$ 29.9	$ 45.5
(Gain) loss on derivative financial instruments	**$ (2.3)**	$ 1.8	$ (1.2)	$ 9.3	$ (7.7)	$ 17.2	$ 5.2	$ 0.7
Foreign exchange (gain) loss on long-term debt	**$ (0.3)**	$ (6.9)	$ 5.1	$ -	$ -	$ -	$ -	$ -
Gain on legal settlement, net[20]	**$ (6.9)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
One-time costs associated with pension plan legislation changes	**$ -**	$ -	$ 2.4	$ -	$ -	$ -	$ -	$ -
Mill closure provisions[21]	**$ -**	$ -	$ -	$ 14.4	$ -	$ -	$ -	$ -
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.[22]	**$ -**	$ -	$ -	$ -	$ (6.1)	$ -	$ -	$ -
Mark-to-market loss on Taylor pulp mill contingent consideration, net[23]	**$ -**	$ -	$ -	$ -	$ 0.7	$ -	$ -	$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 4.5
Net impact of above items	**$ (9.5)**	$ (5.1)	$ 6.3	$ 23.7	$ (13.1)	$ 17.2	$ 5.2	$ 5.2
Adjusted shareholder net income (loss)	**$ 26.5**	$ 20.9	$ 7.9	$ 6.4	$ (2.0)	$ 46.5	$ 35.1	$ 50.7
Shareholder net income (loss) per share (EPS), as reported	**$ 0.27**	$ 0.20	$ 0.01	$ (0.13)	$ 0.08	$ 0.22	$ 0.22	$ 0.34
Net impact of above items per share[24]	**$ (0.07)**	$ (0.04)	$ 0.05	$ 0.18	$ (0.10)	$ 0.13	$ 0.04	$ 0.04
Adjusted net income (loss) per share	**$ 0.20**	$ 0.16	$ 0.06	$ 0.05	$ (0.02)	$ 0.35	$ 0.26	$ 0.38

[20] During the second quarter of 2016, the Company recorded a one-time gain of $15.5 million related to a settlement of a legal claim with respect to logistics services net of non-controlling interest and related impairment.

[21] During the third quarter of 2015, the Company recorded one-time costs of $19.4 million (before tax) associated with the announced closure of the Canal Flats sawmill

[22] On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for $30.0 million and recognized a $7.0 million gain (before-tax).

[23] As part of the sale of the BCTMP Taylor pulp mill to CPPI on January 30, 2015, Canfor could receive contingent consideration based on the Taylor pulp mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million (before-tax) and Canfor recorded an asset and CPPI recorded an offsetting liability for this amount. During the second quarter of 2015, the contingent consideration asset and liability were revalued to nil. The adjustment above reflects the impact to Canfor EPS net of non-controlling interest.

[24] The year-to-date net impact of the adjusting items per share and adjusted net income (loss) per share does not equal the sum of the quarterly per share amounts due to rounding.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2016**		As at December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**157.5**	$	97.5
Accounts receivable - Trade		**198.6**		191.8
- Other		**72.0**		61.1
Inventories (Note 2)		**541.7**		587.2
Prepaid expenses		**69.8**		53.2
Total current assets		**1,039.6**		990.8
Property, plant and equipment		**1,453.9**		1,445.1
Timber licenses		**547.5**		515.2
Goodwill and other intangible assets		**226.9**		241.0
Long-term investments and other (Note 3)		**72.7**		98.6
Retirement benefit surplus (Note 5)		**0.8**		2.7
Deferred income taxes, net		**2.3**		1.2
Total assets	**$**	**3,343.7**	$	3,294.6
LIABILITIES				
Current liabilities				
Operating loans (Note 4)	**$**	**129.0**	$	158.0
Accounts payable and accrued liabilities		**407.1**		350.3
Current portion of deferred reforestation obligations		**51.0**		50.7
Forward purchase liabilities (Note 12)		**111.9**		76.1
Total current liabilities		**699.0**		635.1
Long-term debt (Note 4)		**439.4**		456.2
Retirement benefit obligations (Note 5)		**326.7**		258.6
Deferred reforestation obligations		**68.5**		61.6
Other long-term liabilities		**23.4**		20.1
Forward purchase liability (Note 12)		**-**		43.0
Deferred income taxes, net		**178.1**		192.3
Total liabilities	**$**	**1,735.1**	$	1,666.9
EQUITY				
Share capital	**$**	**1,047.7**	$	1,047.7
Contributed surplus and other equity		**(74.5)**		(74.5)
Retained earnings		**270.0**		257.7
Accumulated foreign exchange translation of foreign operations		**74.7**		100.0
Total equity attributable to equity shareholders of the Company		**1,317.9**		1,330.9
Non-controlling interests		**290.7**		296.8
Total equity	**$**	**1,608.6**	$	1,627.7
Total liabilities and equity	**$**	**3,343.7**	$	3,294.6

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

APPROVED BY THE BOARD

Director, R.S. Smith

Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Sales	**$ 1,022.3**	$ 952.4	**$ 2,090.2**	$ 1,882.4
Costs and expenses				
Manufacturing and product costs	**715.0**	690.2	**1,465.0**	1,316.0
Freight and other distribution costs	**156.4**	159.3	**324.3**	305.5
Export taxes	**-**	10.5	**-**	10.5
Amortization	**57.5**	52.2	**118.1**	101.5
Selling and administration costs	**23.4**	21.7	**47.8**	44.0
Restructuring, mill closure and severance costs	**1.5**	0.9	**2.5**	3.6
	953.8	934.8	**1,957.7**	1,781.1
Equity income (Note 3)	**1.1**	-	**2.2**	-
Operating income	**69.6**	17.6	**134.7**	101.3
Finance expense, net	**(8.4)**	(5.6)	**(16.6)**	(10.9)
Foreign exchange gain on long-term debt	**0.4**	-	**8.3**	-
Gain (loss) on derivative financial instruments (Note 6)	**3.1**	12.7	**0.7**	(15.3)
Other income (expense), net	**0.4**	3.3	**(9.7)**	14.1
Net income before income taxes	**65.1**	28.0	**117.4**	89.2
Income tax expense (Note 7)	**(14.1)**	(4.1)	**(24.1)**	(18.3)
Net income	**$ 51.0**	$ 23.9	**$ 93.3**	$ 70.9
Net income attributable to:				
Equity shareholders of the Company	**$ 36.0**	$ 11.1	**$ 62.0**	$ 40.4
Non-controlling interests	**15.0**	12.8	**31.3**	30.5
Net income	**$ 51.0**	$ 23.9	**$ 93.3**	$ 70.9
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ 0.27**	$ 0.08	**$ 0.47**	$ 0.30

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2016	3 months ended June 30, 2015	6 months ended June 30, 2016	6 months ended June 30, 2015
Net income	**$ 51.0**	$ 23.9	**$ 93.3**	$ 70.9
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit pension plan actuarial gains (losses) (Note 5)	**(45.4)**	22.2	**(69.2)**	17.9
Income tax recovery (expense) on defined benefit pension plan actuarial gains (losses) (Note 7)	**11.8**	(5.8)	**18.0**	(4.7)
	(33.6)	16.4	**(51.2)**	13.2
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	**(0.8)**	(6.2)	**(25.3)**	28.1
Other comprehensive income (loss), net of tax	**(34.4)**	10.2	**(76.5)**	41.3
Total comprehensive income	**$ 16.6**	$ 34.1	**$ 16.8**	$ 112.2
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 5.9**	$ 19.1	**$ (8.5)**	$ 80.6
Non-controlling interests	**10.7**	15.0	**25.3**	31.6
Total comprehensive income	**$ 16.6**	$ 34.1	**$ 16.8**	$ 112.2

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Share capital				
Balance at beginning of period	**$ 1,047.7**	$ 1,059.3	**$ 1,047.7**	$ 1,068.0
Share purchases (Note 8)	**-**	(3.3)	**-**	(12.0)
Balance at end of period	**$ 1,047.7**	$ 1,056.0	**$ 1,047.7**	$ 1,056.0
Contributed surplus and other equity				
Balance at beginning of period	**$ (74.5)**	$ (74.5)	**$ (74.5)**	$ 31.9
Forward purchase liabilities related to acquisitions (Note 12)	**-**	-	**-**	(106.4)
Balance at end of period	**$ (74.5)**	$ (74.5)	**$ (74.5)**	$ (74.5)
Retained earnings				
Balance at beginning of period	**$ 266.8**	$ 264.9	**$ 257.7**	$ 260.1
Net income attributable to equity shareholders of the Company	**36.0**	11.1	**62.0**	40.4
Defined benefit pension plan actuarial gains (losses), net of tax	**(29.3)**	14.2	**(45.2)**	12.1
Share purchases (Note 8)	**-**	(6.6)	**-**	(27.2)
Acquisition of non-controlling interests (Note 8)	**(3.5)**	(0.5)	**(4.5)**	(2.3)
Balance at end of period	**$ 270.0**	$ 283.1	**$ 270.0**	$ 283.1
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$ 75.5**	$ 61.5	**$ 100.0**	$ 27.2
Foreign exchange translation differences for foreign operations, net of tax	**(0.8)**	(6.2)	**(25.3)**	28.1
Balance at end of period	**$ 74.7**	$ 55.3	**$ 74.7**	$ 55.3
Total equity attributable to equity holders of the Company	**$ 1,317.9**	$ 1,319.9	**$ 1,317.9**	$ 1,319.9
Non-controlling interests				
Balance at beginning of period	**$ 303.3**	$ 311.3	**$ 296.8**	$ 250.4
Net income attributable to non-controlling interests	**15.0**	12.8	**31.3**	30.5
Defined benefit pension plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**(4.3)**	2.2	**(6.0)**	1.1
Distributions to non-controlling interests	**(7.3)**	(6.7)	**(11.5)**	(9.7)
Acquisition of non-controlling interests (Note 8)	**(16.0)**	(1.5)	**(19.9)**	(6.7)
Non-controlling interests arising on acquisitions (Note 12)	**-**	-	**-**	52.5
Balance at end of period	**$ 290.7**	$ 318.1	**$ 290.7**	$ 318.1
Total equity	**$ 1,608.6**	$ 1,638.0	**$ 1,608.6**	$ 1,638.0

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2016**	2015	6 months ended June 30, **2016**	2015
Cash generated from (used in):				
Operating activities				
Net income	**$ 51.0**	$ 23.9	**$ 93.3**	$ 70.9
Items not affecting cash:				
Amortization	**57.5**	52.2	**118.1**	101.5
Income tax expense	**14.1**	4.1	**24.1**	18.3
Long-term portion of deferred reforestation obligations	**(7.6)**	(10.4)	**4.2**	2.0
Foreign exchange gain on long-term debt	**(0.4)**	-	**(8.3)**	-
Changes in mark-to-market value of derivative financial instruments	**(3.6)**	(18.7)	**(3.4)**	0.4
Employee future benefits	**3.2**	3.7	**6.4**	7.4
Finance expense, net	**8.4**	5.6	**16.6**	10.9
Gain on legal settlement, net (Note 11)	**(15.5)**	-	**(15.5)**	-
Equity income	**(1.1)**	-	**(2.2)**	-
Other, net	**(3.3)**	(2.6)	**(2.9)**	-
Defined benefit pension plan contributions, net	**(5.2)**	(5.5)	**(10.4)**	(2.5)
Income taxes paid, net	**(3.0)**	(12.1)	**(16.6)**	(34.1)
	94.5	40.2	**203.4**	174.8
Net change in non-cash working capital (Note 9)	**128.8**	86.3	**70.8**	(14.9)
	223.3	126.5	**274.2**	159.9
Financing activities				
Change in operating bank loans (Note 4)	**(76.0)**	(41.0)	**(29.0)**	74.0
Finance expenses paid	**(6.9)**	(3.0)	**(11.0)**	(5.6)
Share purchases (Note 8)	**-**	(13.2)	**-**	(39.2)
Acquisition of non-controlling interests (Note 8)	**(19.4)**	(7.3)	**(24.4)**	(9.0)
Cash distributions paid to non-controlling interests	**(7.3)**	(6.7)	**(11.5)**	(9.7)
	(109.6)	(71.2)	**(75.9)**	10.5
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(66.2)**	(49.4)	**(113.3)**	(95.2)
Acquisitions (Note 12)	**(19.7)**	(66.4)	**(19.7)**	(139.5)
Change in restricted cash	**-**	-	**-**	50.2
Other, net	**(2.7)**	(9.3)	**(1.1)**	(8.2)
	(88.6)	(125.1)	**(134.1)**	(192.7)
Foreign exchange gain (loss) on cash and cash equivalents	**(0.3)**	(0.5)	**(4.2)**	7.9
Increase (decrease) in cash and cash equivalents*	**24.8**	(70.3)	**60.0**	(14.4)
Cash and cash equivalents at beginning of period*	**132.7**	214.2	**97.5**	158.3
Cash and cash equivalents at end of period*	**$ 157.5**	$ 143.9	**$ 157.5**	$ 143.9

*Cash and cash equivalents include cash on hand less unpresented cheques.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI"), hereinafter referred to as "Canfor" or "the Company."

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2015, available at www.canfor.com or www.sedar.com.

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

These financial statements were authorized for issue by the Company's Board of Directors on July 26, 2016.

Accounting Standards Issued and Not Applied

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

In January 2016, the IASB issued IFRS 16, *Leases*, which will supersede IAS 17, *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2016**		As at December 31, 2015
Logs	**$**	**112.3**	$	169.1
Finished products		**284.7**		285.4
Residual fibre		**29.4**		20.8
Processing materials and supplies		**115.3**		111.9
	$	**541.7**	$	587.2

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at June 30, 2016 totaled $0.6 million (December 31, 2015 - $0.5 million).

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at June 30, 2016		As at December 31, 2015
Investments	**$**	**16.1**	$	16.2
Conifex timber investment loan		**-**		30.5
Equity investment in Anthony EACOM Inc.		**17.4**		16.2
Lakeland Winton receivable		**15.0**		15.0
Other deposits, loans and advances		**24.2**		20.7
	$	**72.7**	$	98.6

On July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ("Lakeland Winton") for consideration of $30.0 million and recorded a gain of $7.0 million in Other Income. The first installment of $15.0 million was received on July 1, 2015 and the second installment for $15.0 million is scheduled to be received on July 1, 2017 and is recorded as a receivable under Long-Term Investments and Other.

During 2015, the Company completed an investment agreement with Conifex Inc. ("Conifex"), a subsidiary of Conifex Timber Inc. As part of the agreement, Conifex issued a five-year senior secured note payable to Canfor in the amount of $30.0 million, secured by a forest license located in British Columbia with 200,000 cubic meters of annual allowable cut. On February 12, 2016, Canfor exercised its option to convert the loan into an ownership interest in the forest license. Upon exercising of the option, the timber investment loan was derecognized and timber additions of $30.6 million were recorded under Timber Licenses.

As part of the acquisition of Anthony Forest Products Company (Note 12), Canfor acquired a 50% interest in Anthony EACOM Inc., which owns an I-joist facility located in Sault St. Marie, Ontario. Canfor's investment in Anthony EACOM Inc. is classified as a joint venture and is accounted for using the equity method of accounting. For the three months ended June 30, 2016, the Company's share of the joint venture's sales was $6.4 million and net income was $1.1 million, and for the six months ended June 30, 2016, the Company's share of the joint venture's sales was $12.4 million and net income was $2.2 million. At June 30, 2016, the carrying value of the equity investment is $17.4 million (December 31, 2015 - $16.2 million).

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at June 30, 2016		As at December 31, 2015
Canfor (excluding CPPI)				
Available Operating Loans:				
Operating loan facility	**$**	**350.0**	$	350.0
Facility for letters of credit		**39.7**		39.7
Total operating loan facility		**389.7**		389.7
Operating loan drawn		**(129.0)**		(158.0)
Letters of credit		**(39.3)**		(39.7)
Total available operating loan facility - Canfor	**$**	**221.4**	$	192.0
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit		**-**		20.0
Total operating loan facility		**110.0**		130.0
Letters of credit		**(9.1)**		(13.0)
Total available operating loan facility - CPPI	**$**	**100.9**	$	117.0
Consolidated:				
Total operating loan facility	**$**	**499.7**	$	519.7
Total available operating loan facility	**$**	**322.3**	$	309.0

In 2015, Canfor's principal operating loans, excluding CPPI, were extended to September 28, 2020 and certain financial covenants were removed. Interest is payable on the operating loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

CPPI extended the maturity date on its operating loan facility to January 31, 2019 and also removed certain financial covenants in 2015. The terms of CPPI's operating loan facility also include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin.

Both Canfor's and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. In 2015, with the extension of both operating facilities, the financial covenants were modified to exclude minimum net worth covenants based on shareholders' equity.

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At June 30, 2016, $36.7 million of letters of credit are covered under this facility with the balance of $2.6 million covered under Canfor's general operating loan facility.

CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. On June 30, 2016, the $6.1 million of letters of credit covered under the expired facility were transferred to the general operating loan facility and combined with the $3.0 million of letters of credit already outstanding under the general operating loan facility.

As at June 30, 2016, the Company and CPPI are in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI are non-recourse to other entities within the Company.

(b) Long-Term Debt

At June 30, 2016, the fair value of the Company's long-term debt is $442.7 million (December 31, 2015 - $448.1 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

In 2015, the Company repaid $175.0 million of its floating interest rate term debt and completed a new $125.0 million floating interest rate term debt financing with the same syndicate of lenders with a maturity of September 28, 2020. The term debt financing was completed to rebalance the Company's debt levels prior to the completion of the US-dollar financings described below. Consistent with the Company's principal operating loan facility, interest is payable on the $125.0 million term debt based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

On October 2, 2015, the Company issued US$100.0 million of senior unsecured notes, bearing interest at 4.4%. The notes mature in three tranches with US$33.3 million due on each of October 2, 2023 and October 2, 2024 with the balance due on October 2, 2025.

On September 28, 2015, the Company entered into a new eight-year floating interest rate term loan for US$100.0 million to further support its growth in the US. The debt is repayable on September 28, 2023 with interest payable based on LIBOR plus a margin.

All borrowings of the Company feature similar financial covenants, including a maximum debt to total capitalization ratio.

As at June 30, 2016, the Company and CPPI are in compliance with all covenants relating to their long-term debt.

5. Employee Future Benefits

For the three months ended June 30, 2016, defined benefit pension plan actuarial losses of $45.4 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the second quarter of 2016 principally reflect a lower discount rate used to value the net defined benefit pension plan obligations offset by the return generated on plan assets. For the six months ended June 30, 2016, losses of $69.2 million (before tax) were recognized in other comprehensive income (loss). For the three and six months ended June 30, 2015, the Company recognized before tax actuarial gains in other comprehensive income (loss) of $22.2 million and $17.9 million, respectively.

For the Company's defined benefit pension plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $102.7 million.

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Pension Benefit Plans	**Other Benefit Plans**
June 30, 2016	**3.5%**	**3.5%**
March 31, 2016	4.0%	4.0%
December 31, 2015	4.1%	4.1%
June 30, 2015	3.9%	3.9%
March 31, 2015	3.6%	3.6%
December 31, 2014	3.9%	3.9%

6. Financial Instruments

Canfor's cash and cash equivalents, accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial measurement.

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes Canfor's financial instruments measured at fair value at June 30, 2016 and December 31, 2015, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level	**As at June 30, 2016**	As at December 31, 2015
Financial assets measured at fair value			
Investments - held for trading	Level 1	**$ 12.1**	$ 17.2
Derivative financial instruments - held for trading	Level 2	**0.3**	-
Investments - available-for-sale	Level 3	**3.5**	-
Royalty receivable - available for sale	Level 3	**-**	0.2
		$ 15.9	$ 17.4
Financial liabilities measured at fair value			
Derivative financial instruments - held for trading	Level 2	**$ 1.7**	$ 4.8
		$ 1.7	$ 4.8

Canfor invests in equity and debt securities, which are traded in an active market and valued using closing prices on the measurement date with gains or losses recognized through comprehensive income. The Company also invests in equity securities, which trade infrequently and have little price transparency. These Level 3 financial instruments are measured at fair value at each reporting period based on management's best estimates with any gains or losses recognized through other comprehensive income.

The Company uses a variety of derivative financial instruments, which are included in Level 2 of the fair value hierarchy, to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, pulp prices, energy costs, and floating interest rates on long-term debt.

At June 30, 2016, the fair value of derivative financial instruments is a net liability of $1.4 million (December 31, 2015 - net liability of $4.8 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six-month periods ended June 30, 2016 and 2015:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Foreign exchange collars and forward contracts	**$ -**	$ 9.5	**$ -**	$ (12.4)
Energy derivatives	**0.9**	3.0	**(0.6)**	0.4
Lumber futures	**2.2**	0.2	**1.2**	(2.1)
Interest rate swaps	**-**	-	**0.1**	(1.2)
Gain (loss) on derivative financial instruments	**$ 3.1**	$ 12.7	**$ 0.7**	$ (15.3)

7. Income Taxes

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Current	**$ (6.1)**	$ 4.8	**$ (20.2)**	$ (16.5)
Deferred	**(8.0)**	(8.9)	**(3.9)**	(1.8)
Income tax expense	**$ (14.1)**	$ (4.1)	**$ (24.1)**	$ (18.3)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Income tax expense at statutory rate 2016 – 26.0% (2015 – 26.0%)	**$ (16.9)**	$ (7.3)	**$ (30.5)**	$ (23.2)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**(1.3)**	1.3	**(0.2)**	2.2
Non-taxable income related to non-controlling interests	**3.7**	1.1	**5.0**	2.1
Permanent difference from capital gains and other non-deductible items	**0.4**	0.8	**1.6**	0.6
Income tax expense	**$ (14.1)**	$ (4.1)	**$ (24.1)**	$ (18.3)

In addition to the amounts recorded to net income, a tax recovery of $11.8 million was recorded to other comprehensive income (loss) for the three months ended June 30, 2016 (three months ended June 30, 2015 - tax expense of $5.8 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six months ended June 30, 2016, the tax recovery was $18.0 million (six months ended June 30, 2015 - tax expense of $4.7 million).

Also included in other comprehensive income (loss) for the three months ended June 30, 2016 was a tax recovery of $0.1 million related to foreign exchange differences on translation of investments in foreign operations (three months ended June 30, 2015 - tax recovery of $0.6 million). For the six months ended June 30, 2016, the tax recovery was $2.3 million (six months ended June 30, 2015 - tax expense of $1.9 million).

8. Earnings Per Share and Normal Course Issuer Bid

Basic net income per share is calculated by dividing the net income attributable to common equity shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended June 30,		6 months ended June 30,	
	2016	2015	**2016**	2015
Weighted average number of common shares	**132,804,573**	133,973,484	**132,804,573**	134,562,720

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the second quarter of 2016, Canfor did not purchase any common shares. As at July 26, 2016, there were 132,804,573 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI purchased 1,839,831 common shares for $19.5 million (an average of $10.60 per common share) from non-controlling shareholders. At June 30 and July 26, 2016, Canfor's ownership interest in CPPI was 53.6%.

9. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Accounts receivable	**$ 14.0**	$ (8.2)	**$ (3.3)**	$ (47.1)
Inventories	**111.4**	106.2	**50.6**	9.3
Prepaid expenses and other assets	**(12.6)**	(16.8)	**(17.6)**	(29.6)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**16.0**	5.1	**41.1**	52.5
Net decrease (increase) in non-cash working capital	**$ 128.8**	$ 86.3	**$ 70.8**	$ (14.9)

10. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment) which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below.

(millions of Canadian dollars, unaudited)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended June 30, 2016							
Sales to external customers	**$**	**765.3**	**257.0**	**-**	**-**	**$**	**1,022.3**
Sales to other segments	**$**	**36.8**	**0.2**	**-**	**(37.0)**	**$**	**-**
Operating income (loss)	**$**	**71.5**	**5.2**	**(7.1)**	**-**	**$**	**69.6**
Amortization	**$**	**39.4**	**16.9**	**1.2**	**-**	**$**	**57.5**
Capital expenditures[1]	**$**	**45.7**	**18.6**	**1.9**	**-**	**$**	**66.2**
3 months ended June 30, 2015							
Sales to external customers	$	676.0	276.4	-	-	$	952.4
Sales to other segments	$	36.7	-	-	(36.7)	$	-
Operating income (loss)	$	5.1	20.9	(8.4)	-	$	17.6
Amortization	$	35.5	15.6	1.1	-	$	52.2
Capital expenditures[1]	$	34.3	12.7	2.4	-	$	49.4
6 months ended June 30, 2016							
Sales to external customers	**$**	**1,537.9**	**552.3**	**-**	**-**	**$**	**2,090.2**
Sales to other segments	**$**	**81.0**	**0.2**	**-**	**(81.2)**	**$**	**-**
Operating income (loss)	**$**	**104.9**	**44.3**	**(14.5)**	**-**	**$**	**134.7**
Amortization	**$**	**80.2**	**35.6**	**2.3**	**-**	**$**	**118.1**
Capital expenditures[1]	**$**	**78.9**	**31.7**	**2.7**	**-**	**$**	**113.3**
Identifiable assets	**$**	**2,312.8**	**803.0**	**227.9**	**-**	**$**	**3,343.7**
6 months ended June 30, 2015							
Sales to external customers	$	1,323.0	559.4	-	-	$	1,882.4
Sales to other segments	$	79.2	-	-	(79.2)	$	-
Operating income (loss)	$	53.4	63.9	(16.0)	-	$	101.3
Amortization	$	67.7	31.5	2.3	-	$	101.5
Capital expenditures[1]	$	65.1	26.2	3.9	-	$	95.2
Identifiable assets	$	2,042.9	784.7	231.1	-	$	3,058.7

[1]Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures exclude the assets purchased as part of the acquisitions of Scotch & Gulf Lumber, LLC, Beadles Lumber Company & Balfour Lumber Company Inc., Southern Lumber Company Inc. and Anthony Forest Products Company in 2015, and Wynndel Box and Lumber Ltd. in 2016 (Note 12).

11. Houston Pellet Limited Partnership Settlement

On June 28, 2016, Houston Pellet Limited Partnership ("HPLP") settled various legal claims with a logistics terminal located in Northern British Columbia related to unloading, storage, handling and shipping services for wood pellets manufactured by HPLP. The settlement will result in $16.3 million in settlement funds paid to HPLP. Certain machinery and equipment involved in the settlement were impaired resulting in approximately $0.8 million in impairment charges recorded by HPLP. The net gain of $15.5 million was recorded in Operating Income net of Manufacturing and Product Costs in the second quarter of 2016. HPLP anticipates receiving the $16.3 million in settlement funds in the third quarter of 2016. Canfor owns a 60% interest in HPLP.

12. Acquisitions

(a) US South

During 2015, Canfor acquired four forest product companies located in the Southern US. Below is a summary of the acquisitions and the consideration paid:

(millions of Canadian dollars, unaudited) **Company**	**Ownership as at June 30, 2016**	**Acquisition Date**		**Consideration Paid to Date**
Scotch & Gulf Lumber, LLC	**50%**	January 30, 2015	**$**	**69.9**
Beadles Lumber Company & Balfour Lumber Company Inc.	**55%**	January 2, 2015		**51.6**
Southern Lumber Company Inc.	**100%**	April 1, 2015		**65.6**
Anthony Forest Products Company	**100%**	October 30, 2015		**126.8**
Total consideration paid to date			**$**	**313.9**

As a result of these acquisitions, Canfor acquired seven sawmills, two laminating facilities, two chip plants and one treating facility located in the US South, with facilities in Georgia, Alabama, Mississippi, Arkansas, Louisiana and Texas. In addition, Canfor acquired a 50% interest in an I-joist facility located in Ontario, Canada. The acquisitions of Scotch & Gulf Lumber, LLC ("Scotch Gulf") and Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") are phased acquisitions and will be 100% owned in July 2016 and January 2017, respectively. Canfor has recorded a forward purchase liability of $71.5 million for the final step of the Scotch Gulf phased acquisition and $40.4 million for the final step of the Beadles & Balfour phased acquisition. Canfor calculated the non-controlling interest related to Scotch Gulf and Beadles & Balfour as the non-controlling share of the fair value of the net identifiable assets at the acquisition date for each of Scotch Gulf and Beadles & Balfour. All of the acquisitions were accounted for in accordance with IFRS 3, *Business Combinations*.

(b) Wynndel Box and Lumber Ltd.

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. ("Wynndel") for $31.6 million, excluding working capital. At the acquisition date, the Company paid $19.7 million, and a working capital true-up payment of $2.6 million was paid in early July. The remaining consideration of $18.0 million will be paid in two installments. The first installment of $14.4 million is scheduled to be paid on April 15, 2017 and is included in Accounts Payable and Accrued Liabilities, and the second installment of $3.6 million is scheduled to be paid on October 15, 2017 and is recorded under Other Long-Term Liabilities. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition of Wynndel included a sawmill located in the Creston Valley of British Columbia, which produces premium boards and customized specialty wood products with an annual production capacity of 65 million board feet. Canfor acquired the assets of Wynndel, including approximately 65,000 cubic meters of annual harvesting rights in the Kootenay Lake Timber Supply Area.

The following summarizes the consideration paid for Wynndel and preliminary amounts of assets acquired and liabilities assumed recognized at the acquisition date:

(millions of Canadian dollars, unaudited)		
Total consideration		
Cash consideration paid	**$**	**19.7**
Consideration payable		**20.6**
Total consideration	**$**	**40.3**

(millions of Canadian dollars, unaudited)		
Recognized amounts of identifiable assets acquired and liabilities assumed		
Land	**$**	**1.1**
Buildings, equipment and mobile		**22.1**
Timber		**9.7**
Non-cash working capital, net		**8.7**
Total net identifiable assets	**$**	**41.6**
Deferred tax liability, net		**(1.3)**
Total consideration	**$**	**40.3**

The Company incurred acquisition-related costs in 2015 and 2016 for the acquisition of Wynndel of $1.3 million principally relating to external legal fees and due diligence costs, which have been included in Selling and Administration Costs. Wynndel's results are recorded in the lumber segment.